

Message Text

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ACTION EUR-12

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FM AMEMBASSY ROME

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DEPARTMENT PASS CEA, TREASURY, FRB

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SUBJ: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW
OF ITALY

REF: (A) OECD 4268, (B) OECD 4290

1. EMBASSY AGREES WITH THRUST OF MISSION'S QUESTIONS TO
SECRETARIAT CONTAINED PARA 12 REFTEL (A). FOLLOWING POINTS MIGHT
ALSO BE MADE TO SECRETARIAT ON THEIR ANALYSIS OF ITALIAN
ECONOMIC PERFORMANCE FOR 1976 AND PROSPECTS FOR 1977.
COMMENTS ARE KEYED TO APPROPRIATE PARA REFTEL.(A).

2. PARA 1. EMBASSY AGREES WITH THRUST OF MISSION'S INTENDED
QUESTIONING (PARA 12, SUBPARA B) OF SECRETARIAT'S DESIRE
FOR "AVOIDANCE OF CONSIDERABLE CHANGE IN EFFECTIVE EXCHANGE
RATE." A FURTHER QUESTION MIGHT BE TO ASK SECRETARIAT'S
VIEWS OF ALTERNATIVE COURSE OF ACTION, SHOULD UNDERLYING
PRICE AND LABOR COST DIVERGENCES CALL FOR SOME EXCHANGE
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RATE CHANGE. ON OTHER HAND, EMBASSY BELIEVES THAT IF ITALIAN
ECONOMIC STABILIZATION WORKS REASONABLY WELL,
RELATIVELY LITTLE DEPRECIATION SHOULD BE NEEDED (E.G.,
ABOUT 10 PERCENT YEAR-OVER YEAR AVERAGE, OF WHICH 6
PERCENT HAS ALREADY OCCURRED).

3. EMBASSY WOULD BE INTERESTED IN CLARIFICATION OF

SECRETARIAT'S MEANING WITH REGARD TO "RIGIDITIES AND DISTORTIONS IN SECTORAL AND REGIONAL PATTERN OF EMPLOYMENT AND LABOR COSTS." IS THIS INTENDED TO MEAN ENCOURAGEMENT FOR EVEN MORE PUBLIC INVESTMENT IN THE MEZZOGIORNO?

4. PARA 2. EMBASSY BELIEVES SECRETARIAT ESTIMATE OF 1976 GDP IS ON THE LOW SIDE AT 5 PERCENT. REAL GROWTH OF 6 PERCENT IS CLOSER TO MARK FOR 1976 AND GROWTH LATER IN YEAR MIGHT MORE ACCURATELY BE DESCRIBED AS LEVELLING OFF RATHER THAN SLOWING DOWN.

5. COMMENT THAT EMPLOYMENT INCREASE IN 1976 WAS MINIMAL SHOULD BE VIEWED IN LIGHT OF FACT EMPLOYMENT DID NOT FALL OFF DURING RECESSION IN 1975. ALSO, RISE IN UNEMPLOYMENT IN 1975 WAS RATHER MODEST, AS WIDE USE WAS MADE OF REDUCED HOURS OF WORK RATHER THAN LAY-OFFS. PICK UP IN HOURS WORKED IN 1976 AND LITTLE CHANGE IN UNEMPLOYMENT RATE IN 1976 RECOVERY WAS NATURAL CONSEQUENCE OF RIGIDITIES IN ITALIAN EMPLOYMENT ARRANGEMENTS.

6. PARA 3. EMBASSY WOULD ADD TO MISSION'S PROPOSED QUESTIONS (PARA 12, SUBPARA A) COMMENT THAT ADJUSTMENT IN SCALA MOBILE POINT VALUE TOOK PLACE OVER TWO YEAR PERIOD (1975 AND 1976) AND NOT JUST IN 1976.

7. PARA 4. EMBASSY IS NOT IN GENERAL DISAGREEMENT WITH MOST OF FORECAST FOR 1977, EXCEPT FOR RATE OF INFLATION WHICH EMBASSY BELIEVES IS TOO HIGH, ESPECIALLY SINCE PRIMARY CAUSES OF INFLATION WILL BE CONSIDERABLY SLOWED LIMITED OFFICIAL USE

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IN 1977. THUS, IT WOULD BE INTERESTING TO KNOW SECRETARIAT'S ANALYSIS OF BASIC SOURCES OF HIGH RATE OF INFLATION (AND NOT JUST FEEDBACK EFFECT OF SCALA MOBILE). EMBASSY ESTIMATES INFLATION RATE MORE IN RANGE OF 17.0 TO 18.5 PERCENT DECELERATING TO ABOUT 13 PERCENT DECEMBER OVER DECEMBER.

8. EMBASSY ALSO HAS NO GREAT DIFFICULTY WITH SECRETARIAT CONCLUSIONS REFTEL B, ALTHOUGH WE COULD QUIBBLE WITH SOME PARTICULARS. MAIN UTILITY TO EXERCISE AT THIS POINT IS THAT IT CAN HELP TO KEEP PRESSURE ON GOI TO FOLLOW UP ITS CURRENT EFFORTS BOTH IN LABOR COST FIELD (INCLUDING BUT NOT LIMITED TO SCALA MOBILE) AND IN BUDGET FIELD (ESPECIALLY ON EXPENDITURE SIDE). IN CONCLUSION, EMBASSY HOPES THAT REFERENCE TO "SPECIAL ARRANGEMENTS...TO COPE WITH ACCUMULATED FOREIGN DEBT" WOULD NOT BE MISINTERPRETED IN PRIVATE CAPITAL MARKETS.

9. EMBASSY AGAIN REGRETS THAT IT UNABLE TO SEND

REPRESENTATIVE TO PARTICIPATE IN REVIEW.BEAUDRY

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